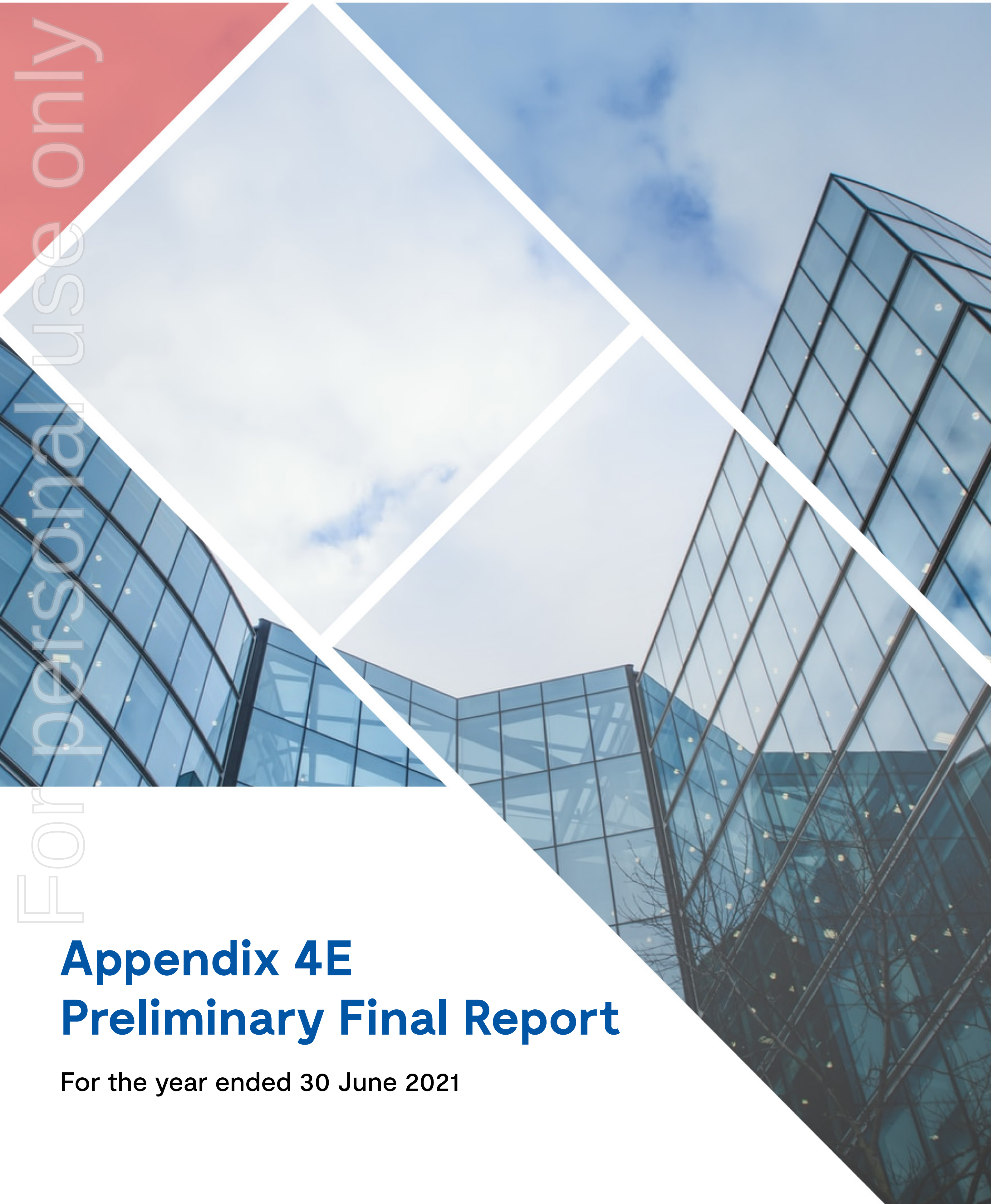
MCS Services Ltd

ABN: 66 119 641 986



Appendix 4E
Preliminary Final Report

For the year ended 30 June 2021

1. Reporting Period

Reporting period: ("Current period"):	Year ending 30 June 2021
Previous corresponding period:	Year ending 30 June 2020

2. Results for announcement to the market

Revenue from ordinary activities	up	by 52% / $12.972m	to	$38,083,000
Profit / (loss) from ordinary activities after tax attributable to members excluding significant items	up	by $1.526m	to	$1,654,000
Net profit / (loss) for the period attributable to members including significant items	up	by 392% / $1.239m	to	$1,555,000

	Amount per share (cents)	**Franked amount per share** (cents)
Dividends		
Final: Current Year	–	–
Final: Previous Year	–	–
Interim: Current Year	–	–
Interim: Previous Year	–	–

Overall the business generated:

- underlying EBITDA (before Significant Items and tax) from ordinary activities of $2.22m (2020: $0.38m);
- underlying net profit (before Significant Items and tax) from ordinary activities of $2.05m (2020: $0.20m);
- a net profit attributable to members of $1.55m (2020: $0.32m).

The Board's intentions for declaring a dividend subsequent to 30 June 2021 are subject to assessments of the most effective available capital management and business opportunities.

3. Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	30 June 2021 $'000	30 June 2020 $'000
Revenue	38,083	25,111
Cost of sales	(31,097)	(20,485)
Gross profit	**6,986**	**4,626**
Other Income		
Interest	13	7
Other	5	12
	18	**19**
Overheads		
Overhead, administration and other expenses	(2,416)	(2,098)
Employee expenses & benefits	(2,365)	(2,172)
	(4,781)	**(4,270)**
	2,223	**375**
Depreciation of property, plant & equipment	(102)	(102)
Depreciation of AASB 16 Right of Use assets	(42)	(42)
Finance Expenses	(34)	(32)
	(178)	**(176)**
	2,045	**199**
Significant items		
Issue of Performance Rights (Note 6)	(99)	(25)
JBPL settlement (Note 12)	–	(125)
Writeback of JBPL net liabilities (Note 12)	–	338
	(99)	**188**
Profit before tax	**1,946**	**387**
Income tax expense	(391)	(71)
Profit for the year attributable to members of the Company	**1,555**	**316**
	-	**-**
Other Comprehensive Income		
Total comprehensive profit for the year attributable to members of the Company.	**1,555**	**316**

4. Condensed Consolidated Statement of Financial Position

	30 June 2021 $'000	30 June 2020 $'000
Current Assets		
Cash and cash equivalents	4,663	2,081
Trade and other receivables	2,923	2,728
Inventory	123	53
	7,709	**4,862**
Non-Current Assets		
Plant and equipment	245	203
Right of Use assets – leased property	187	229
Other	2	2
	434	**434**
Total Assets	**8,143**	**5,296**
Current Liabilities		
Trade and other payables	2,679	2,206
Income Tax	380	71
Provisions	1,960	1,521
Financial liabilities: AASB 16 Leases	45	42
Financial liabilities: motor vehicle	10	10
Related party loan	–	84
	5,074	**3,934**
Non-Current Liabilities		
Provisions	202	94
Financial liabilities: AASB 16 Leases	170	214
Financial liabilities: motor vehicle	5	16
	377	**324**
Total Liabilities	**5,451**	**4,258**
Net Assets	**2,692**	**1,038**
Equity		
Issued capital (Note 6)	17,980	17,980
Other reserves (Note 6)	1,893	239
Accumulated losses (Note 8)	(17,181)	(17,181)
	2,692	**1,038**

5. Condensed Consolidated Statement of Cashflows

	30 June 2021 $'000	30 June 2020 $'000
Cash flows from operating activities		
Receipts from customers	41,635	27,949
Payments to employees, suppliers and directors	(35,842)	(25,544)
Payments for BAS	(2,834)	(2,010)
Income tax refunded (paid)	(80)	39
JBPL legal settlement (**Note 12**)	–	(150)
Net cash provided by operating activities	**2,879**	**284**
Cash flows from investing activities		
Interest received	13	7
Interest paid	(25)	(13)
Payment for plant & equipment	(139)	(154)
Net cash (used in) investing activities	**(151)**	**(160)**
Cash flows from financing activities		
Buyback of share capital (**Note 6**)	–	(15)
Finance Lease - motor vehicle	(10)	25
AASB 16 Leases – office rent (**Note 13**)	(51)	(51)
Repayment of Related Party borrowings	(85)	(100)
Net cash (used in) financing activities	**(146)**	**(141)**
Net increase / (decrease) in cash and cash equivalents	**2,582**	**(17)**
Cash / cash equivalents at beginning of financial year	2,081	2,098
Cash / cash equivalents at end of financial year	**4,663**	**2,081**

6. Securities on Issue

The Company had the following securities on issue at the date of this report:

	Number
Ordinary shares	
Shares 1 July 2020	186,274,557
On issue at date of this report	**186,274,557**
Quoted options	
Options at 1 July 2020	–
On issue at date of this report	–
Unquoted options	
Options at 1 July 2020	18,000,000
On issue at date of this report	**18,000,000**
Performance Rights	
Performance Rights at 1 July 2020	3,600,000
Awarded during the reporting period	1,800,000
On issue at date of this report	**5,400,000**

Ordinary shares Dividend Reinvestment Plan (DRP)
During the Reporting Period no shares were issued pursuant to the DRP.

Ordinary share buyback and cancellation
During the previous reporting period, as part of an on-market share buyback program approved by shareholders, 1,270,000 ordinary securities were acquired and cancelled at an average buyback price of 1.11 cents totalling $14,700.

Quoted options
No quoted options were issued, exercised or expired during the Reporting Period.

Unquoted options
No unquoted options were issued, exercised or expired during the Reporting Period.

During a previous reporting period, on 30 November 2017, the Company granted 9 million unlisted options as a Directors' incentive, and on 19 December 2017 granted 9 million unlisted options as a staff incentive. The options were issued for $nil consideration and are exercisable at 4 cents on or before 30 November 2022. The options were valued at $213,300 on issue.

Performance rights

During a previous reporting period 3.6 million Performance Rights, as approved by shareholders at the AGM on 29 November 2019, were granted to the CEO / Managing Director, Paul Simmons, effective 29 November 2019 as a cost effective incentive forming part of a reasonable and appropriate remuneration package. During the current Reporting Period 1.8 million Performance Rights were granted to the CFO, Mark Englebert. Both the CEO and CFO Performance Rights vest over the period to 30 June 2022 upon achievement of earnings per share / strategic plan milestones, were issued for $nil consideration, have an exercise price of nil cents and expire on or before 30 June 2022. Each Performance Right will, subject to vesting, entitle the holder on exercise to one share in the Company.

The value of the CEO Performance Rights was calculated using the Black-Scholes Model at $61,200, of which $25,500 was expensed to Profit or Loss in the previous reporting period, $25,500 in the current Reporting Period and the remainder will be expensed over the reporting periods to June 2022. The value of the CFO Performance Rights was calculated at $88,200, of which $73,500 was expensed to Profit or Loss in the current Reporting Period and the remainder will be expensed over the reporting periods to 30 June 2022.

None of the Performance Rights had been vested by 30 June 2021.

Profit Reserve

A meeting of the Board of Directors has resolved that the net profit of the Company for the Reporting Period is not offset against Accumulated Losses but is appropriated to a 2021 Profit Reserve. These profits are not otherwise made unavailable for distribution as a dividend.

		30 June 2021 $'000	**30 June 2020** $'000
Share option and Performance Rights Reserve	At beginning of year	239	214
	Performance Rights	99	25
		338	**239**
Profit Reserve	At beginning of year	–	–
	Net profit attributable to members	1,555	–
		1,555	–
		1,893	**239**

7. Dividend reinvestment plan

A dividend reinvestment plan is in place.

8. Accumulated losses

	30 June 2021 $'000	30 June 2020 $'000
Accumulated (losses) at beginning of financial year	(17,181)	(17,472)
Initial application of AASB 16 – Leases (**Note 13**)	–	(25)
Net profit attributable to members	–	316
Accumulated (losses) at end of financial year	**(17,181)**	**(17,181)**

9. Net tangible assets

	30 June 2021 Cents	30 June 2020 Cents
Net tangible asset backing per ordinary share	1.5	0.6

10. Details of entities over which control has been gained or lost during the period

None

11. Details of associates and joint venture entities

Not applicable.

12. Any other significant information

On 26 September 2017, John Boardman Pty Ltd ("JBPL"), a 100% owned subsidiary of the Company, was placed into liquidation. That entity had negligible assets, did not trade, and had been acquired in 2015 on the contractually warranted basis that the vendor was liable for pre-acquisition liabilities. Subsequently the Company became aware of unpaid JBPL tax liabilities of some $0.3m which had not been paid by the vendor and, accordingly, the Group consolidated the liability into the Group's reported financial position at that time.

During the previous reporting period:

- the liquidator lodged a claim against the Company, the underlying claim related to the unpaid pre-acquisition tax liabilities of JBPL;
- the Company disputed the claim but for commercial reasons paid $150,000 in settlement of all existing and possible claims, including repayment of a $25,000 inter-company loan owing to JBPL by the Company;
- as a result of the settlement, the net liabilities of JBPL were no longer a liability of the Group and gave rise to a writeback of $0.34m to the Group's consolidated Profit or Loss, in that previous reporting period.

13. Accounting Standards

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

During the previous reporting period *AASB 16 – Leases* was applicable for the first time. AASB 16 introduced a single lessee accounting model that eliminated the requirement for leases to be classified as either operating of finance leases. The key features of AASB 16 are:

- Lessees are required to recognise assets and liabilities for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);
- A lessee measures the right-of-use assets similar to other non-financial assets and lease liabilities similarly to other financial liabilities;
- Assets and liabilities arising from the lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease;
- additional disclosure requirements.

The Group reviewed all the Group's arrangements to identify leases. The Group currently leases it's office premises. The Group currently has no other material operating leases and does not act as a lessor.

The impacts of AASB 16 on the Group's financial statements in the Reporting Period included:

- the rental charge for the Group's office premises of $51,624 was reclassified as payment of the lease liability and interest thereon. The Right of Use Asset has been depreciated by $42,000 and an interest charge of $10,320 has been recognised in Profit or Loss, with a resulting effect on EBITDA calculations for users of the financial report; and giving rise to a reduction in reported net profitability of some $696;
- repayment of the principal portion of the office lease liability has been classified as cashflow from financing activities, rather than as cashflow from operating activities.

14. Results for the period

	30 June 2021 cents	**30 June 2020** cents
Basic earnings per ordinary share	0.835	0.169
Diluted earnings per ordinary share	0.811	0.166
Weighted Average number of ordinary shares used in the calculation of diluted EPS	191,674,557	190,757,297

15. Return to shareholders

During the previous reporting period, as part of an on-market Share Buy-Back program approved by shareholders, 1,270,000 ordinary securities were acquired and cancelled at an average buy-back price of 1.11 cents, totalling $14,700.

No on-market Share Buy-Back occured in the current Reporting Period.

16. Significant features of operating performance

During the Reporting Period the Company:

Operational

- maintained all material existing client contracts with the exception of a two-site Shopping Centre contract (revenue $1.1m pa) which expired without renewal effective 30 June 2021;
- increased annual revenue by 52% notwithstanding COVID 19 restrictions on the retail, sports and events sectors in WA;
- benefitted from increasing levels of revenue from it's work in the WA quarantine-control hotel system;
- increased its revenues through organic growth, with new contractual work commencing at shopping centres and a major WA government health service;
- further to its management processes in the previous reporting period being certified under ISO 9001 (Quality), AS4801 and OHSAS 18001 (Health & Safety), the Company's environmental processes were certified to ISO 14001 (Environmental Management) in the Reporting Period.

Corporate

- granted 1.8m Performance Rights to the CFO, Mark Englebert;
- repaid the remaining $85,000 of the vendor loan owing to P&M Simmons, vendors in 2015 of the MCS Security Group Pty Ltd business. The remainder of the vendor loan had been repayable by October 2020.

Strategic

- obtained security operating licences for Queensland, adding to the existing operating licences for NSW, ACT, Victoria, South Australia and Western Australia;
- continued to pursue pipeline opportunities in WA and other States;

The Company:

- continues to seek further organic growth opportunities in its specialist security segments, including but not limited to leveraging its reputation with existing clients to obtain work at additional locations;
- is also assessing the addition of new verticals to its business;
- is constantly assessing the expansion of its operations in the Perth metropolitan area, regional Western Australia and interstate through the identification and acquisition

of suitable targets. It may progress these opportunities if they are value accretive to shareholders and consistent with the Company’s strategy; and

- is assessing the most effective use of cash balances going forward including for business acquisitions or share buy-backs.

17. Segment results

All revenue earned during the year, and all non-cash assets included in the Statement of Financial Position at the year end, relate to the security business as based in Australia.

18. Trends in results

The upward trend in Revenue during the Reporting Period reflects the Company's:

- increased work levels during the Reporting Period at a Perth quarantine- control hotel;
- progress in establishing itself as the most prominent provider of security services to shopping centres and sports stadia in Western Australia;
- work levels in Shopping Centres not being materially affected by WA's comparatively limited level of COVID restrictions to date;
- events security work volumes being impacted by COVID restrictions during the Reporting Period, with significant work volume reductions or suspension of music / sports events work (except for the asset protection security at Perth’s major sports stadium, which remained unaltered) commencing in March 2020.

At the date of this Report the Group’s quarantine-control hotel security work is ongoing, utilising a specifically trained roster of MCS security officers.

Gross Profit margins were affected by pay-awards to Guards net of contract rate increases to customers.

Operational Overheads were affected by the continuing downward trend in the Company's Workers Compensation insurance costs relative to wage costs, a function of a trend in reduced incidents and enhance management of the return to work process.

The Income Tax expense benefitted from utilisation of carry-forward tax losses that have satisfied the requisite loss utilisation tests, resulting in reduced income tax payable for the period.

19. This Report is based on accounts to which the following applies

The accounts are in the process of being audited.

20. Description of any likely audit dispute or qualification

None.

Signed in accordance with a resolution of the directors.

APM JP.

The Hon RC (Bob) Kucera APM JP
Non-Executive Chairman

Dated this 31st day of August 2021